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Summary

1. (SBU) Senator Bond, your delegation's 22-23 March visit to India provides a significant opportunity to assess the accelerating India-US relationship on the heels of President Bush's historic summit and help shape the next phase of this growing partnership. After forty years of mutual indifference during the Cold War, the US and India are making up for lost time. Twenty million Indians are among the richest consumers in the world, while 200 million more consume like Americans. As India's economy expands, hundreds of millions more will seek out imported US goods and services. As a result, we aim to double trade in just the next three years. New nonstop flights between the US and India are proliferating, and visa issuances to Indians have skyrocketed. India is now the leading non-US destination for NIH research grants, and the largest supplier of foreign students in the US. Our militaries are moving ever closer together with sophisticated joint exercises, shared research and development, and possible important aircraft and other acquisitions that could create thousands of American jobs. The unique relationship that has taken form, built on the personal ties of two million Americans of Indian descent, booming business links between American and Indian firms, shared values of democracy and tolerance, and the newly-forged links of nuclear, space, agricultural, and high-tech cooperation, will become one of America's most significant partnerships for the 21st century.

2. (SBU) India and the US are beginning to coordinate our foreign policies for the first time, with joint efforts to sustain Afghan democracy, defeat the Maoists in Nepal and spread the culture and values of democracy throughout the world. This reflects a cultural transformation that is taking place here. America, viewed for decades as a Cold War

bogie man by suspicious leftist elites, is now increasingly seen as India's natural strategic partner and a land of vast opportunity and potential. Reflecting this new mood, the GOI today is working hard to advance the Prime Minister's vision of an Indo-Pak relationship disentangled from old territorial disputes, despite the substantial irritant of alleged Pakistan-based terrorism. Problems remain -- a vocal group of Communist parliamentarians (whose support keeps the PM's coalition in power) oppose some aspects of globalization, free trade, and the US-India relationship, to include a joint strategy on curbing Iran's WMD program. In addition, the UPA government continues to manage an unwieldy and fractious governing coalition even as it fends off challenges from the BJP, Leftists, and regional parties. Your visit here can serve to educate Indians about the opportunities for civil nuclear cooperation. The common threat that the US and India face from terrorism has given impetus for growing cooperation on intelligence-sharing and cooperative counter-terrorism efforts but this field has greater potential than we have yet realized.

13. (SBU) Overall trend lines are very positive, and India is a country experiencing newly found yet sustained dynamism that has breathed hope into the lives of many of its citizens. Your visit here can help address the concerns of some Indians about the expanding relationship with the United States even as you help us to educate others about the clear benefits of partnership with the US and the opportunities in the President's civil nuclear cooperation initiative. By and large, recent polls such as those by the Pew Research Center show that 70 percent of Indians view the US favorably, and increasingly appreciate our language, culture, and values. A

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natural partnership that should have been forged in 1947 is finally taking flight today. Its creation will enhance American security and prosperity for decades to come. End Summary.

President Bush's Visit to India

14. (SBU) President Bush's landmark March 1-3 visit to India heralded a new dynamic era of a strong US-India partnership based on common objectives and shared values. "Our two great democracies are now united by opportunities that can lift our people, and by threats that can bring down all our progress," the President declared at his historic March 3 speech in front of the Old Fort in New Delhi. The convivial relations and substantive dialogue between the President and Prime Minister Singh reinforced a transformed and energized strategic partnership that will help make the world a safer, more stable place, as the US and India work together to fight terrorism and promote democratic values worldwide.

Heavy Focus on Substantive Achievements

15. (SBU) President Bush's visit brought many accomplishments, from the civil nuclear initiative to agreement to establish a US consulate in Hyderabad. On the economic front, we agreed to intensify efforts to increase trade and investment, building on the US role as India's number one bilateral (the EU is a bigger trade partner) trade and investment partner, and India's status as a growing destination for US exports. Seeking to bolster global energy security, the US welcomed India's participation in a wide range of international activities to develop cutting-edge, environmentally friendly technology that could help meet the world's energy needs. As part of the energy initiative, India released its civil nuclear separation plan, which will make its entire civil nuclear program transparent for the first time. The two leaders also reaffirmed the importance of counter-terrorism cooperation and enhanced joint defense activities, including a Maritime Cooperation Framework that will help prevent transnational crimes like piracy and

mitigate the effects of natural disasters. Pointing to the vast potential for collaboration between the countries, the President announced, "The partnership between our free nations has the power to transform the world."

Civil Nuclear Initiative

¶6. (SBU) President Bush and Prime Minister Singh announced that they had reached an historic understanding on India's proposed separation of civil and military nuclear facilities and programs, one element of the US-India civil nuclear cooperation initiative that the two announced in July 2005. This initiative removes an important source of discord that constrained the US-Indian bilateral relationship for over thirty years and promises a profound transformation in the way the United States and India will partner to promote democracy, stability, prosperity, and peace in the region and globally. India's separation of its civil nuclear facilities and programs, including a commitment to negotiate permanent safeguards and an Additional Protocol with the IAEA, are significant nonproliferation gains. This initiative will also open up US-India trade and investment in nuclear energy for the first time in three decades, while helping meet India's energy needs in an environmentally friendly manner and reducing global competition for scarce hydrocarbons. The Administration will work with Congress to amend legislation and will encourage partners in the Nuclear Suppliers Group

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(NSG) to adjust guidelines, which will allow for full civil nuclear commerce with India.

¶7. (SBU) We also continue our path finding cooperation in other areas of energy. The US-India Energy Dialogue was initiated by President George W. Bush and Indian Prime Minister Manmohan Singh in September 2004 and launched by US Secretary of Energy Samuel Bodman and India Deputy Chairman

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of Planning Commission Dr. Montek Singh Ahluwalia in May ¶2005. The Energy Dialogue has five Working Groups -- Civilian Nuclear Energy; Oil and Gas; Coal; Power and Energy Efficiency; and New Technology and Renewable Energy -- each of which has held several meetings since the Bush-Singh summit in July 2005. The Dialogue aims at our mutual interests in promoting government and private sector cooperation to advance the security, reliability, and environmental-soundness of world energy supplies and in supporting India's sustainable economic growth through energy sector reforms and more efficient utilization and expanded production and consumption of energy resources. A few of the many activities include: the Civil Nuclear Energy workshop in Mumbai (Jan 9-13, 2006); Clean Coal Technology seminar (Nov 2005); a Power Efficiency Seminar (March 2006); a Bilateral exchange with the US New Energy Technology Laboratories (March 2006); and a Natural Gas and Coal Bed Methane Seminar (March 2006).

The Economic Relationship

¶8. (SBU) The US-India economic relationship, for decades narrow and circumspect, is gathering steam and promises to be a key driver of our overall bilateral relationship in the 21st century. The United States is India's largest trading partner and its largest foreign investor. Two-way trade grew to about \$27 billion last year, its highest level ever, with US imports surging 30 percent. Our publicly stated goal is to double the bilateral trade in the next three years, an ambitious but not unrealistic target. The US-India economic partnership extends beyond trade and investment, however. The increasingly complex economic links being forged between our two countries are having a profound impact on our respective economic outlooks in the 21st century. American companies understand that abundant brainpower here is the

natural resource necessary for the competitiveness of their firms. They also see India's market as one of growing importance. Two million Indian Americans and many million Indians who travel regularly to the US are helping weave the economies (and societies) together.

¶9. (SBU) President Bush's March 1-3 visit raised the trajectory of the economic relationship to new heights. He and Prime Minister Manmohan Singh agreed on a wide range of initiatives on trade, agriculture, energy security, and innovation and the knowledge economy, signaling that the economic component of the bilateral relationship will be a top priority for the two nations. They also convened a meeting of the CEO Forum, a group of CEOs from some of the largest American and Indian companies, to accept a report on what the two governments can do to further bolster trade and investment. The intense bilateral economic engagement with the Indians over the last two years has yielded a wide range of economic successes, including \$13.5 billion in Indian orders last year for Boeing airplanes and settlement of the thorny Enron-related Dabhol power project dispute. The top Indian economic priorities are ensuring reliable supplies of energy to sustain economic growth and spreading the benefits of this growth into rural India. For both these priorities, the Indians realize that we are critical to their agenda. They need our support internationally and they want access to

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our technology to enhance energy security and to develop the agricultural sector.

¶10. (SBU) The Indian economy continues to set a torrid pace, with GDP growing at over 8 percent this year. An important economic advantage for India in the coming decades will be its young population, with 70 percent below the age of 36 at this time. Another significant trend we detect is a palpable improvement in the Indian business community's confidence about its ability to compete in the international economy. Yet, India will find it hard to sustain the high growth rates in the medium term unless it undertakes a second generation of some critical but politically difficult reforms -- cutting subsidies, reducing government's role in the economy, building infrastructure and liberalizing the agricultural and financial sectors. Fortunately for India, its government is led by a group of economists who understand very well what needs to be done. Their room for maneuver is constrained, however, as they must carefully navigate the political minefields created by their communists allies on the left, the opposition on the right, and populist blocs within the ruling parties.

Domestic Politics

¶11. (SBU) The opposition National Democratic Alliance (NDA), consisting of the Bharatiya Janata Party (BJP) and its regional party allies, remain distracted by internal ideological disputes despite the selection of a new party president. As a result, the United Progressive Alliance (UPA) coalition faces diminished pressure from the Hindu nationalist right wing. The UPA, which consists of the Congress Party and its regional allies, does not enjoy a ruling majority in Parliament, so coalition-management is key to its survival. Although they do not belong to the UPA, the Left Front (LF) of four Communist and Leftist parties keeps it in power by providing the necessary support of its 62 MPs, increasing the LF's stature and significance out of any proportion to its true level of popular support. Their support, however, can be more of a curse than a blessing for the UPA, and has made the Leftists the de facto opposition as a result of the BJP's continuing disarray. Increasingly disenchanted with the UPA, Left leaders have made no secret of their determination to form a new non-UPA government at the first opportunity, while Congress hopes to win a Parliamentary majority and rule without LF support. For now, it appears likely the UPA government will serve its full five

year term until 2009.

¶12. (SBU) Because of its ideological orientation, the LF has opposed some UPA economic liberalization policies and aspects of the improving US-India relationship, and staged demonstrations during President Bush's visit. The LF has denounced India's votes with the US on Iran's nuclear program in the IAEA as evidence that the UPA has abandoned India's traditional non-alignment stance under US pressure. The LF also demanded that India vote with Iran in future IAEA sessions or "face the consequences." However, knowing that the Left cannot bring down the government over the issue, the UPA has continued its principled opposition to Iran's nuclear program, not allowing the LF objections to derail policy.

The Domestic Impact of Growing US Ties

¶13. (SBU) India's growing partnership with the US has created frictions inside and outside the ruling coalition. Several regional parties that either belong to the UPA coalition or support it have joined the LF to attack the

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government for staking too much on relations with the United States. Despite this opposition, however, key UPA leaders led by the PM himself have shown their determination to stay the course with the US. The PM has stoutly defended India's ties with the US and the nuclear deal on the floor of Parliament on three occasions in the last two weeks. Moreover, political commentators increasingly complain that the Left's stance is unhelpful to India's strategic needs.

¶14. (SBU) The UPA's trump card is that, notwithstanding the grumpiness of political parties, the vast majority of Indians enthusiastically support better ties with the US and enhanced Indian integration into the opportunities and risks of the global economy. Opposition by political parties to the UPA's foreign policies should be viewed through the prism of parochial opportunism, and not usually out of principled ideological opposition. Even the Left parties, who rely on Marxism to justify their positions, find that the Chief Ministers of the states they govern (West Bengal and Kerala) aggressively court US and other foreign investors and seek to reform economic conditions.

A Challenging Political Season

¶15. (SBU) The Congress-led United Progressive Alliance (UPA) government continues to weather assaults from its left and right, even when on-going political events threaten its stability, including its defeat in a key election in the large state of Bihar, and domestic discontent over its stance in the IAEA on Iran (fanned by the Denmark cartoon controversy and opportunistic politicians). After Natwar Singh resigned from the cabinet following accusations in the Oil for Food scandal, the UPA managed to effectively deflect further opposition assaults. Following this tumultuous period, televised revelations of blatant corruption by MPs, from the BJP and other anti-Congress parties, shifted the focus away from the UPA, allowing the Prime Minister to return to his intended course in foreign and domestic affairs. However, the constant dalliance of the UPA's Left Front partners with regional parties in a "Left and Secular Alliance" keeps the UPA from taking too many bold initiatives, and draws attention away from national issues to state-level politics where the regional parties hold more sway. This matrix of impending political issues has energized the Left and right opposition and encouraged increasing criticism of Congress integrity as the party faces challenging elections in Kerala, West Bengal, Tamil Nadu and Assam and Pondicherry in 2006.

Indo-Pak Relations Hinge on Terror Waged Against India

¶16. (SBU) Indian citizens are very worried by what appears to be a trend toward more deadly terrorist attacks spreading beyond the traditionally troubled state of Jammu and Kashmir.

These recent attacks include the October 29 Delhi bombings, the December 28 shooting at the Indian Institute for Science in Bangalore, and most recently a March 7 series of bombings in the Hindu holy city of Varanasi. Indian news media speculate that the attacks reflect a shift in tactics by Pakistan-based terror groups as they move away from terrorism within Kashmir and focus on traditional Hindu sites in an attempt to attract more attention and provoke communal tensions, as well as targeting the new centers of commerce that have given India the foundation for its economic growth.

These worries are planting doubts in the minds of Indians about Pakistan's sincerity in claiming to want peace.

¶17. (SBU) Nevertheless, Prime Minister Singh has pursued a

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sustained policy of rapprochement toward Pakistan because the vast majority of Indians seek normalization and free trade and travel with their western neighbor. India's aid to Pakistan following the October 2005 earthquake reflects the PM's desire to try to keep moving ahead with Pakistan in several areas, including energy cooperation, trade, and people-to-people ties. The bus service between Srinagar and Muzaffarabad that began in April has been cited in the media and by contacts as the most visible example of the improving Indo-Pak relationship but it remains suspended until roads and bridges can be repaired; other related positive moves are increasing cultural and sports exchanges and the opening of two additional bus routes between Indian and Pakistani Punjab and a new rail link between Rajasthan and Sindh.

Other Regional Issues

¶18. (SBU) Under Prime Minister Singh's leadership, the Government of India has emerged as a responsible leader in the South Asia region, as well as Asia at large. India has joined as a full partner in international efforts to rebuild Afghanistan, pledging more than \$600 million to Afghanistan's reconstruction, focused specifically on building infrastructure, strengthening the country's democratic institutions, and training the country's newly elected leaders. As an alleged staging ground for terrorist attacks within India, Bangladesh causes constant concern for the Indian government, which also seeks the country's cooperation in importing natural gas from Burma. President Kalam's March 10-13 trip to Burma, as well as a recent trip to South Korea and the Philippines, illustrated India's "Look East" policy, in which the PM Singh administration seeks to increase its influence in Southeast Asia, countering China's growing presence in the region. Meanwhile, India and China have sought warmer relations by engaging in a strategic dialogue, and separating the contentious border issues from the surging economic links (bilateral trade has been growing at about 40% annually). India and China concluded on March 13 the latest round of talks aimed at settling their long-running border disputes. The Maoist insurgency in Nepal also causes alarm in New Delhi, but India has preferred to work quietly behind the scenes in the hope that continued agitation for democratic reform, led by the political parties in Nepal, will pressure the monarchy to restore democratic government, followed by peace talks with the Maoists. The Indian government has implemented a similar policy in Sri Lanka, where it hopes that talks between the government and LTTE continue under the guidance of the Norwegian mediators. That India and the US increasingly share a common outlook on regional issues reflects the transformation of relations and the forging of a meaningful partnership.

Iran

¶19. (SBU) India's large Muslim population and massive diaspora in the gulf region give it an important stake in the international face-off over Iran's WMD ambitions. The GOI also hopes to use its relationship to cultivate Iran as a source of energy, a corridor for trade to Central Asia (most importantly to Afghanistan, to which Pakistan continues to deny India land-transit rights), and a partner in stabilizing Afghanistan. Past high-level exchanges and intensified cooperation in the energy sector illustrate that the GOI places value in this relationship. At the same time, firm Indian opposition to Iran's acquisition of nuclear weapons has guided India's responsible votes with us in the IAEA, despite causing turbulence in Delhi's relations with Tehran and uproar in Parliament from left and right opposition

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parties and even from some within Congress. New Delhi's ability to influence the hard-line regime in Tehran is being tested, as the controversy about Iran's nuclear program and President Ahmadinejad's vitriolic statements against Israel continue to boil and the GOI struggles with external and internal political pressure to avoid straining ties with Iran. Advancing the civilian nuclear energy initiative helps to dilute India's need for Iranian energy resources, although plans for an Iran-Pakistan-India gas pipeline continue to plod ahead.

Military Ties Multiplying

¶20. (SBU) Since lifting sanctions in September 2001, the US and India have conducted a series of joint and service-to-service exercises of increasing scope and capability. The seventh and largest in a series of naval exercises, Malabar 05 was held in the Arabian Sea off the Indian Coast, and featured aircraft carriers from both countries deploying F/A-18 Super Hornets and Indian Sea Harriers in air combat tactics. The Maritime Security Framework endorsed by President Bush and Prime Minister Singh in March 2006 will ensure further collaboration between both countries' navies, especially in anti-piracy and disaster relief activities in the Indian Ocean. US and Indian Air Forces participated in Cope India 06 held at Kalaikunda Air Station in West Bengal, the largest air combat exercise between the US and Indian air forces to date. Exercise Yudh Abyas ("Battle Practice" in Hindi), the largest US Army exercise with the Indian Army to date, occurred in January 2006 in the foothills of the Himalayas and focused on counter-insurgency tasks in semi-urban and semi-mountainous terrain. The success of the exercise highlights the importance of sustaining the growth of military-to-military relations.

¶21. (SBU) Eager to purchase what it believes is superior technology and quality military items, the GOI has indicated growing interest in acquiring defense items and building an arms relationship with the US. Among the larger potential arms sales on the horizon, the Indian Air Force will soon purchase 125 multi-role combat aircraft to replace some of its aging Russian aircraft, and the US plans to offer both the F-16 and F/A-18 fighters to fill India's requirement. Bell Helicopter intends to compete the Model 407 in response to an Indian Army requirement for the purchase of 60 light helicopters, with a follow-on co-production contract for an additional 137 units. In addition, the Indian Navy is seeking to acquire the USS TRENTON (LPD) as a "hot transfer" in December 2006, which, if successful, will mark the first major platform sale to the GOI. Meanwhile, the Indian Army has purchased and is in the process of receiving twelve Firefinder Radars worth approximately \$200 million.

Conclusion - An Historic Opportunity for America

¶22. (SBU) Senator Bond, your delegation's program in India will give you an excellent view of developing India/US ties

from government officials and other well-placed commentators and analysts. In the wake of the President's historic visit, it is in both countries' common interest to work as partners to address the numerous pressing issues both in the region and around the world that lie ahead. While this is a delicate process, we are developing cooperation and trust that will grow in the years to come. You can expect your Indian interlocutors to ask for your position on the civil nuclear legislation introduced by Chairman Lugar and Chairman Hyde on March 16. Your visit can serve to encourage key

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audiences of the value of developing a natural strategic partnership with the United States, and the great importance we attach to receiving the advice and guidance of our legislative branch. We appreciate very much your taking the time to visit India and look forward to assuring an informative and productive visit.

123. (U) Visit New Delhi's Classified Website:
(<http://www.state.sgov.gov/p/sa/newdelhi/>)
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